6/15/88 R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 22B
June 10, 1988

IN THIS ISSUE:

Japan Top Creditor Again 1

Japan Gets A New Economic Plan 3

Japan, U.S. Reach Agreement
On Joint Development Of FSX Fighter 5

Takeshita Addresses Special U.N. Session
On Disarmament 6

Foreign Minister To Visit Israel 8

Notes: South Africa; Insider Trading;
International VANs; Nuclear Pact;
Construction Pact; Beef And Citrus 9

Statistical Supplement 13

Japan Top Creditor Again

Japan has picked up another economic trophy, this one for the third straight year. As of December 31, 1987 it had net foreign assets of $240.7 billion, up from $180.4 billion a year earlier (see Table 1). Analysts expect Britain, which Japan edged narrowly last year for the top spot, to be the runner-up again, although the latter has not yet released its statistics.

The United States finds itself in the opposite, if until recently unaccustomed, role of the world's largest debtor. Its 1987 net indebtedness to the rest of the world is likely to be around $400 billion, ahead even of major Latin American borrowers. As recently as 1984 the United States was a net creditor, with its net foreign assets peaking in 1981.

Table 1: Japan's Net External Assets

(in millions of dollars)

End of Year	Private Sector	Government Sector	Total
1978	$-2,550	$38,764	$36,214
1979	850	27,927	28,777
1980	-16,659	28,193	11,534
1981	-18,537	29,455	10,918
1982	2,046	22,636	24,682
1983	11,928	25,331	37,259
1984	47,069	27,277	74,346
1985	104,450	25,371	129,821
1986	138,541	41,810	180,351
1987	146,494	94,250	240,744

Source: Bank of Japan and Nihon Keizai Shimbun, May 25, 1988.

The position of the world's two largest market economies comes as no surprise. The mirror image of Japan's continuing large current account surpluses is large net foreign investments. Similiarly, the United States in effect pays for its excess of imports over exports by getting deeper in hock to foreign lenders. Put somewhat differently, Japan's ever-stronger creditor position was predictable from the previously announced large 1987 current account surplus (see JEI Report No. 6B, February 12, 1988).

Estimated 1987 U.S. data suggest that Japan has a net asset position with the United States of about $90 billion, although this figure may be distorted by not reflecting flows between the United States and Japan routed through third countries. If reasonably accurate, the number indicates that Japan accounts for about one-fourth of this country's net debtor position, leaving the United States with many other creditors and Japan with other debtors.

A closer look at the new Japanese data suggest more complexities (see Table 2). Japan's overseas investments were up, to be sure, but long-term liabilities surged as well, reflecting the on-going process of internationalizing Japanese capital markets. Foreign investors bought more Japanese bonds and Japanese firms floated more issues abroad in 1987, contributing to the 22.8 percent increase in long-term liabilities.

Short-term private assets were also up dramatically. Accounting for most of the jump was a big increase in the amount of funds Japanese firms transferred to their overseas affiliates, which in turn often invested in higher-paying certificates of deposit and commercial paper than are available in Japan. More generally, the increase in both overseas short-term liabilities and assets was attributable to Tokyo's offshore market, which was established in late 1986 and grew dramatically in 1987.

Direct investment abroad, the means by which Japanese companies invest in production facilities, distribution operations and real estate, among other

things, was 32.6 percent greater at the end of 1987 than just a year earlier at $77 billion. Investment in securities remained far larger, however, increasing 31.7 percent to $339.7 billion. This suggests that most Japanese foreign investment income is likely to continue to be interest income rather than profits.

Table 2: Japan's External Assets and Liabilities

(in millions of dollars)

	Assets		Liabilities	
	End of 1986	End of 1987	End of 1986	End of 1987
Long-term	$476,136	$646,181	$192,336	$236,181
Private sector	424,704	565,100	152,192	178,810
Government sector	51,432	81,081	40,144	57,371
Short-term	251,170	425,450	354,619	594,706
Private sector	207,876	343,261	341,847	583,057
Government sector	43,294	82,189	12,772	11,649
Total	727,306	1,071,631	546,955	830,887

Source: Nihon Keizai Shimbun, May 25, 1988.

Japan's position as the world's largest creditor is likely to have major effects. It will probably boost Japan's role as the top earner of investment income, which in turn will prop up the current account surplus (see JEI Report No. 18B, May 6, 1988). Japanese banks, insurance firms and securities companies, already among the world's largest, are likely to see even more business come their way as Japanese individuals and firms, following the practices of their American counterparts, favor homegrown financial service firms to invest overseas and to manage the funds already there.

Douglas Ostrom

Japan Gets A New Economic Plan

New economic plans in Japan are almost inevitable when the government changes hands. Now, just in time to explain to other world leaders at the upcoming Toronto economic summit, Prime Minister Noboru Takeshita has his, a document setting out the goals of policymakers and the likely course of the economy over the next five years. It is scheduled to run from April 1 of this year through March 31, 1993. The new plan, the eleventh in the postwar period, has a theme instead of a name, "Japan Living Together with the World." It replaces the "Outlook and Government Outline for the 80s" adopted by the Nakasone cabinet in August 1983.

Unlike the plans of communist countries, which actually serve as guidelines for the detailed direction of the economy, Japanese plans are short on prescriptions or implementing mechanisms. Rather than government edict, Japan

to convene a special international conference on verification of nuclear testing. British representatives were hopeful that Japan's expanded support for U.N. peacekeeping missions would extend to the forces on Cyprus. The prime minister was quoted as saying that this positive feedback helped him to appreciate the "global aspirations for peace and disarmament."

Barbara Wanner

Foreign Minister To Visit Israel

Foreign Minister Sosuke Uno will travel to Jerusalem late this month during a tour through the Middle East. The decision to include Israel in his itinerary has been interpreted as a sign that Tokyo may be shifting away from its tilt toward Arab nations. More generally, analysts believe the visit reflects Japan's awareness of its global status, including the need to display a foreign policy that is at least partially independent from economic concerns.

If so, this would be a dramatic shift since Japan's position on Arab-Israeli disputes has been based almost exclusively on economic considerations. Support for Palestinian self-determination and Israel's withdrawal from territories occupied during the 1967 war have been the main themes of Japan's Middle East policy ever since 1973. At that time members of the Organization of Petroleum Exporting Countries threatened to cut off oil sales to countries that were "unfriendly" to the Arab cause.

Indeed, some Japanese companies reportedly comply with Arab demands that they boycott the Israeli market. Tokyo has never endorsed the practice but neither has it taken action to prevent the private sector from adopting such policies. (The United States, by contrast, has anti-boycott legislation.) The Washington Post quoted one Foreign Ministry official who admitted that some Japanese firms hesitate to anger Arab customers by selling to Israel: "When you sell, the population has to be counted."

Not surprisingly, Japan's trade relations with Arab countries as a group have been much closer than those with Israel. But its two-way trade with several non-oil producers is no greater than that with Israel. Israel's market for Japanese goods is substantial but remains largely unexplored (see Table).

Government officials in Tokyo have downplayed the potential significance of Mr. Uno's visit, apparently in an attempt to maintain smooth relations with Arab friends. Some have said that the trip merely reflects the potential for improved trade relations, not political questions. Others say that the visit is simply a continuation of present diplomatic efforts. The foreign minister will also visit Egypt, Jordan and Syria. He reportedly also hopes to meet with Palestine Liberation Organization leader Yasser Arafat and to visit Palestinian sections of the Israeli-occupied West Bank.

Nonetheless, the fact that Mr. Uno is going to Israel is a significant step foward. Certainly, Israeli officials are encouraged. One offical was quoted by the Washington Post as saying that the visit is "a sign of Japan's maturity in the international arena. They came to the conclusion that they have to at least listen to all sides."

Eileen M. Doherty

Japan's Exports to Middle East Countries, 1983-87

(in millions of dollars, f.o.b. value basis)

Country	1983	1984	1985	1986	1987
Saudi Arabia	$6,687	$5,634	$3,890	$2,762	$3,239
United Arab Emirates	1,357	1,126	1,164	1,033	1,118
Iran	2,820	1,692	1,348	1,144	1,043
Kuwait	1,763	1,432	1,536	1,220	857
Egypt	851	975	731	562	544
Iraq	631	806	1,306	1,210	391
Qatar	233	175	164	148	150
Jordan	293	205	190	183	142
Syria	250	116	127	91	131
Israel	267	174	170	275	346
Total Exports to Middle East	17,160	14,206	12,171	9,795	9,177

Source: Japan Tariff Association

Notes

South Africa - The African National Congress opened a representative office in Tokyo May 25. The office will solicit financial, political and diplomatic support from Japan in the fight against Pretoria's apartheid policy and will act as coordinator of the ANC's efforts in East Asia. Spokesman Jerry Matsila has urged Japan to "rethink" its South Africa policies. Although Tokyo has initiated a number of sanctions against Pretoria, Japan was South Africa's largest trading partner in 1987 (see JEI Report No. 7B, February 19, 1988). Mr. Matsila argued that "the notion that business is business and not politics is totally unacceptable."

In a related development, Zimbabwe President Robert Mugabe encouraged Tokyo June 1 to take stronger measures against apartheid. One way to do so, he said, would be to pump economic assistance into other African nations while making a "real political thrust" against South Africa -- that is, severing economic ties. He complained that Japan's attempt to disassociate itself economically from Pretoria "has taken it some time, if it is doing that at all" and argued that additional economic sanctions would show that Tokyo is "sensitive to the downtrodden people who are fighting for the right to self-determination."

President Mugabe's call came shortly after a meeting between Prime Minister Noboru Takeshita and Mozambique President Joaquim A. Chissano May 23 in Tokyo. Mr. Takeshita reaffirmed Tokyo's opposition to apartheid, promising to "positively take part in discussions" when the issue is raised at the June 19-21 economic summit in Toronto. He pledged a $16 million general-purpose loan for Mozambique -- not only to promote the country's development goals, but

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1986	1987	January-March 1987	January-March 1988	January 1988	February 1988	March 1988
Japan's Balance of Payments							
Trade Balance	$92,827	$96,386	$23,373	$21,268*	$4,583*	$7,441*	$9,244*
Exports (f.o.b.)	205,591	224,605	50,515	59,299*	17,000*	19,866*	22,433*
Imports (f.o.b.)	112,764	128,219	27,142	38,031*	12,417*	12,425*	13,189*
Current Account Balance	85,845	87,015	20,962	18,487*	3,515*	6,849*	8,123*
Long-Term Capital (net)	-131,461	-136,532	-32,209	-15,305*	-3,785*	-8,272*	-3,248*
Overall Balance	-44,767	-29,545	-4,872	8,694	5,689	-1,762	4,767
International Reserves (end of period)	42,239	81,479	58,389	84,857	83,407	83,821	84,857
Japan's Customs Clearance Trade							
Trade Balance	82,743	79,706	19,487	15,797	3,083	5,255	7,459
Exports (f.o.b.)	209,151	229,221	51,464	60,296	17,331	20,245	22,721
Cars	32,945	35,693	7,477	8,981	3,089	3,017	2,875
Steel	12,706	12,610	2,837	3,292	925	1,082	1,284
Imports (c.i.f.)	126,408	149,515	31,977	44,499	14,247	14,990	15,262
Crude Oil	19,481	20,663	5,338	5,744	1,952	2,024	1,768
Japan-U.S. Trade							
Trade Balance	51,401	52,090	11,015	9,772	2,976	3,401	3,395
Exports (f.o.b.)	80,456	83,580	18,001	19,859	5,851	6,822	7,187
Imports (c.i.f.)	29,054	31,49	6,986	10,088	2,874	3,421	3,793
U.S.-Japan Trade							
Trade Balance (f.a.s./c.i.f.)	-58,575	-59,825	-14,373	-13,023	-3,946	-4,531	-4,545
Exports (f.a.s.)	26,882	28,249	5,959	8,837	2,668	2,937	3,232
Imports (c.i.f.)	85,457	88,074	20,331	21,860	6,614	7,468	7,777
Trade Balance (f.a.s./Customs)	-55,030	-56,326	-13,571				
Exports (f.a.s.)	26,882	28,249	5,959				
Industrial Supplies	8,752	10,156	2,269				
Capital Goods	6,728	7,769	1,510				
Food and Feed	5,043	5,555	1,129				
Consumer Goods	1,690	2,551	522				
Imports (Customs)	81,911	84,575	19,529				
Automotive Products	32,849	33,695	7,748				
Capital Goods	25,334	28,947	6,626				
Consumer Goods	15,451	13,385	3,054				
Industrial Supplies	6,949	7,281	1,808				

The Commerce Department has not released any end-use data for 1988.

*Preliminary

Japanese Economic Indicators

(percent change from year-earlier period unless otherwise indicated)

	1986	1987	January-March 1987	January-March 1988	January 1988	February 1988	March 1988
Discount Rate (end of period)	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Outstanding Money Supply	8.7%	10.4%	8.8%	12.0%	11.9%	12.4%	11.8%
Industrial Production	-0.2%	3.0%	0.2%	11.0%	9.2%	12.2%	11.4%
Manufacturing Operating Rate	-4.6%	0.5%	-3.1%	6.6%	7.0%	7.4%	5.4%
Number of Bankruptcies	-7.1%	-27.6%	-14.4%	-22.9%	-25.1%	-23.2%	-20.7%
Residential Construction Starts	10.4%	22.7%	12.3%	16.8%	19.0%	17.1%	14.8%
Job Openings to Applications (ratio)	0.62	0.68	0.62	0.88	0.86	0.88	0.90
Nominal Wages	2.7%	1.9%	2.0%	2.4%*	0.8%	3.3%	3.1%*
Labor Productivity	2.3%	6.7%	2.0%	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	-9.1%	-3.7%	-7.9%	-1.0%	-1.0%	-1.0%	-1.0%
Consumer Prices	0.6%	0.1%	-0.9%	0.8%	0.9%	0.7%	0.7%
Yen-Based Export Prices	-15.1%	-5.1%	-7.6%	-5.6%	-6.4%	-5.2%	-5.0%
Yen-Based Import Prices	-35.8%	-8.3%	-27.5%	-3.9%	-3.3%	-4.3%	-4.2%

*Preliminary

For Japan's most recent GNP figures, see JEI Report No. 12B, March 25, 1988.